ARTHUR ANDERSEN

SLC Turnberry Limited

Financial statements for the year ended 31 December 1999
together with directors' and auditors' reports

Registered number: SC177810

Directors' report
For the year ended 31 December 1999

The directors present their report on the affairs of the company together with the financial statements and auditors' report for the year ended 31 December 1999.

Principal activity and business review

The company was incorporated on 7 August 1997 as Randotte (no 443) Ltd. On 23 December 1997 the company changed its name to SLC Turnberry Limited. On 23 December 1997 the company acquired the entire issued share capital of Nitto World Co., Limited, being the Turnberry Hotel and golf courses and spa, from Nitto Koygo Limited. On 30 December 1997 the trade and assets of Nitto World Co., Limited was transferred into SLC Turnberry Limited.

The principal activity of SLC Turnberry Limited is now the ownership and management of hotel and associated leisure facilities.

The company recorded an operating profit in the year of £1,731,980 (period to 31 December 1998 - £2,009,856).

Results and dividends

The turnover for the year was £11,929,848 (1998 - £10,811,982) and the profit on ordinary activities after tax was £289,275 (1998 - £495,281).

Directors and their interests

The directors of the company during the year were:

T.W. Darnhall	
R. F. Cotter	
K.J. Millar	(resigned 6 December 1999)
M.P. Wale	
S. Selbie	(appointed 26 January 2000)
R. L. Scott	(appointed 26 January 2000)

No director had a beneficial interest in the shares of the company at any time during the year.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of its profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Year 2000

After an initial assessment of the potential impact of the Year 2000 on the company, a plan was developed to ensure that all significant risks were addressed well in advance of the critical dates and with minimum disruption to the business.

The board is confident that we achieved Year 2000 compliance in all areas which had a potential impact on the business and that the cost of doing so did not have a material impact on the company.

Auditors

A resolution will be submitted at the annual general meeting to reappoint Arthur Andersen, Chartered Accountants, as auditors for the ensuing year.

Turnberry Hotel
Ayrshire
KA26 9LT

By order of the Board

S. Selbie
Director

4 December 2000

ARTHUR ANDERSEN

To the Shareholders of SLC Turnberry Limited:
We have audited the financial statements on pages 4 to 17 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors
As described on page 2, the company's directors are responsible for the preparation of the financial statements, in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen.

Arthur Andersen
Chartered Accountants and Registered Auditors
191 West George Street
Glasgow
G2 2LB

4 December 2000

Profit and loss account

For the year ended 31 December 1999

	Notes	Year to 31 December 1999 £	Period to 31 December 1998 £
Turnover	2	11,929,848	10,811,982
Cost of sales		(5,885,080)	(5,391,144)
Gross profit		6,044,768	5,420,838
Other operating expenses (net)	3	(4,312,788)	(3,410,982)
Operating profit		1,731,980	2,009,856
Investment income	4	-	116,986
Interest payable and similar charges	5	(1,442,705)	(1,631,561)
Profit on ordinary activities before tax		289,275	495,281
Taxation	8	-	-
Retained profit for period	17	289,275	495,281

The accompanying notes are an integral part of this profit and loss account.

The company has no recognised gains or losses other than the profit for the financial period.

All of the above operating results derive from the acquisition of the shares of Nitto World Co., Limited on 23 December 1997 and the subsequent transfer of the trade and assets of that company to SLC Turnberry Limited on 30 December 1997.

Balance sheet

31 December 1999

	Notes	1999 £	1998 £
Fixed assets			
Tangible assets	9	31,806,400	30,315,610
Investments	10	3,337,974	2,973,054
		35,144,374	33,288,664
Current assets			
Stocks	11	537,082	436,170
Debtors: Amounts falling due within one year	12	716,703	775,979
Cash at bank and in hand		3,181,094	2,651,968
		4,434,879	3,864,117
Creditors: Amounts falling due within one year	13	(9,465,142)	(6,833,753)
Net current liabilities		(5,030,263)	(2,969,636)
Total assets less current liabilities		30,114,111	30,319,028
Creditors: Amounts falling due after more than one year	14	(15,715,879)	(16,210,071)
Net assets		14,398,232	14,108,957
Capital and reserves			
Equity share capital	16	2	2
Additional paid in capital	17	13,613,674	13,613,674
Profit and loss account	17	784,556	495,281
Total capital employed		14,398,232	14,108,957

Signed on behalf of the Board

S. Selbie
Director

4 December 2000

The accompanying notes are an integral part of this balance sheet.

1 Statement of accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding period is set out below.

a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company has elected under Section 229 of the Companies Act 1985 not to consolidate Nitto World Co., Limited as its inclusion is not material for the purpose of giving a true and fair view.

b) Cash flow statement

The company has taken advantage of the exemption in FRS 1 to dispense with the requirement to include a cash flow statement in its financial statements as its results are incorporated into the financial statements of Starwood Hotels and Resorts Worldwide Inc., which are available to the public.

c) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation as set out in note 9.

Depreciation on tangible fixed assets is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis using the following annual rates which are based on the expected useful economic lives of the assets:

Buildings	2.5%
Plant and equipment	5% to 50%

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

d) Investments

Fixed asset investments are shown at cost less provision for impairment.

e) Stocks

Stocks are stated at the lower of cost and net realisable value.

f) Foreign currency

Transactions denominated in foreign currencies are recorded in sterling at exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the profit and loss account.

1 Statement of accounting policies (continued)

g) Turnover

Turnover is stated at the invoiced value of goods and services provided, exclusive of VAT and net of discounts granted.

h) Leases

Assets acquired under finance leases are initially reported at the fair value of the asset with an equivalent obligation categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Obligations relating to finance leases represent the total of the minimum lease payments outstanding at the date of the balance sheet. Future finance charges are not included. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance.

Rentals under operating leases are charged on a straight-line basis over the lease term. Further information on charges in the year and future commitments is given in note 18.

i) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the financial statements and by the tax authorities) has been calculated on the liability method.

Deferred tax is provided on timing differences which, in the opinion of the directors, will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

j) Pension contributions

The company operates a defined benefit pension scheme. Pension contributions are charged to the profit and loss account on the basis of spreading the cost of providing pensions over the period of employees' services to the company. Further information on this scheme is provided in note 18.

2 Segment information

In the opinion of the directors the company has only one market segment and thus no segmental analysis is provided.

3 Other operating expenses (net)

	Year to 31 December 1999 £	Period to 31 December 1998 £
Selling and marketing costs	701,619	533,377
Administrative expenses	3,611,169	2,877,605
	4,312,788	3,410,982

4 Investment income

	Year to 31 December 1999 £	Period to 31 December 1998 £
Bank interest	-	116,968

5 Interest payable and similar charges

	Year to 31 December 1999 £	Period to 31 December 1998 £
On bank loans		
- repayable within five years, not by instalments	-	14,795
On intercompany loans	543,591	-
On promissory notes	899,114	1,616,766
	1,442,705	1,631,561

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation for the year is stated after charging/(crediting):

	Year to 31 December 1999 £	Period to 31 December 1998 £
Depreciation	968,215	931,798
Auditors' remuneration		
- audit services	25,000	27,000
- non-audit services	15,000	15,000
Staff costs (note 7)	3,169,459	3,242,392
Hire of plant and machinery		
- under operating leases	85,353	69,842

7 Staff costs

Particulars of employees are as shown below:

	Year to 31 December 1999 £	Period to 31 December 1998 £
Employee costs during the year amounted to:		
Wages and salaries	2,840,846	2,902,580
Social security costs	217,901	228,800
Other pension costs	110,712	111,012
	3,169,459	3,242,392

The average monthly number of persons employed by the company during the year was as follows:

	Year to 31 December 1999 Number	Period to 31 December 1998 Number
Administration and management	51	49
Casual	233	124
	284	173

7 Staff costs (continued)

Remuneration

The remuneration of the directors was as follows:

	Year to 31 December 1999 £	*Period to* 31 December 1998 £
Emoluments	67,829	20,532

Pensions

The number of directors who were members of pension schemes was as follows:

	Year to 31 December 1999 Number	Period to 31 December 1998 Number
Defined benefit schemes	1	1

8 Taxation

No tax charge arose in the current period due to the availability of losses within the group.

9 Tangible fixed assets

The following are included in the net book value of tangible fixed assets:

	1999 £	1998 £
Freehold land and buildings	29,936,222	29,362,439
Plant and equipment	1,870,178	953,171
	31,806,400	30,315,610

9 Tangible fixed assets (continued)

The movement in the year was as follows:

	Freehold land & buildings £	Plant & equipment £	Total £
Cost			
Beginning of year	30,098,968	4,327,821	34,426,789
Additions	1,336,269	1,122,736	2,459,005
End of year	31,435,237	5,450,557	36,885,794
Depreciation			
Beginning of year	736,529	3,374,650	4,111,179
Charge	762,486	205,729	968,215
End of year	1,499,015	3,580,379	5,079,394
Net book value			
Beginning of year	29,362,439	953,171	30,315,610
End of year	29,936,222	1,870,178	31,806,400

Plant and equipment includes £71,948 (1998 - £108,255) of assets at net book value held under finance leases.

10 Fixed asset investments

The following are included in the net book value of fixed asset investments:

	1999 £	1998 £
Subsidiary undertakings	3,337,974	2,973,054

10 Fixed asset investments (continued)

The movement during the year was as follows:

	Subsidiary Undertakings £
Cost and net book value	
Beginning of year	2,973,054
Additions	364,920
End of year	3,337,974

The company has an investment in the following subsidiary undertaking:

	Country of registration	Principal activity	Description & proportion of shares held
Nitto World Co., Limited	England	Non-trading	100% ordinary share capital

Additions

The additions in the year to 31 December 1999 relate to additional legal and professional costs incurred as a result of the acquisition of Nitto World Co., Limited in the prior year.

11 Stocks

The following are included in stocks:

	1999 £	1998 £
Glass, crockery and silverware	128,180	134,263
Food and beverage	88,258	74,353
Goods held for resale	278,621	189,548
Other	42,023	38,006
	537,082	436,170

The directors consider that there is no significant difference between the balance sheet value and the replacement cost of stocks at the balance sheet date.

12 Debtors

The following are included in debtors:

	1999 £	1998 £
Amounts falling due within one year:		
Trade debtors	379,127	380,820
Prepayments and accrued income	137,971	70,794
Amounts due from other group undertakings	-	310,367
Other debtors	199,605	13,998
	716,703	775,979

13 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	1999 £	1998 £
Trade creditors	1,438,450	194,727
Amounts due to other group undertakings	6,588,691	5,718,239
Obligations under finance leases	36,404	55,939
Accruals and deferred income	774,062	674,916
VAT	81,111	189,932
Intercompany loan	546,424	-
	9,465,142	6,833,753

14 Creditors: Amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

	1999 £	1998 £
Intercompany loan	9,255,607	-
Obligations under finance leases	13,157	42,406
Promissory note	6,447,115	16,167,665
	15,715,879	16,210,071

Interest on the promissory note is charged at 10% per annum. Interest on the intercompany loan is charged libor plus an additional variable margin. At 31 December 1999 the interest rate was 6.57%.

14 Creditors: Amounts falling due after more than one year (continued)

Borrowings are repayable as follows:

	1999 £	1998 £
Promissory note		
Between one and two years	6,447,115	16,167,665
Intercompany loan		
Between one and two years	546,424	-
Between two and five years	1,639,272	-
After five years	7,069,911	-
	9,255,607	-
On demand or within one year	546,424	-
	9,802,031	-

15 Deferred taxation

No deferred taxation has been provided because the directors have concluded, on the basis of reasonable assumptions and the intentions of management that it is improbable that any liability will crystallise due to significant brought forward tax losses.

16 Equity share capital

	1999 £	1998 £
Authorised		
2 ordinary shares of £1 each	2	2
Allotted, called-up and fully-paid		
2 ordinary shares of £1 each	2	2

17 Reserves

Of total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise:

	1999 £	1998 £
Distributable		
- profit and loss account	784,556	495,281

The movement in the profit and loss account was as follows:

	Year to 31 December 1999 £	Period to 31 December 1998 £
At beginning of year	495,281	-
Profit for financial year	289,275	495,281
At end of year	784,556	495,281

Reconciliation of movements in shareholders' funds

	Year to 31 December 1999 £	Period to 31 December 1998 £
Profit for financial year	289,275	495,281
Net addition in shareholders' funds	289,275	495,281
New shares issued	-	2
Additional paid in capital	-	13,613,674
Opening shareholders' funds	14,108,957	-
Closing shareholders' funds	14,398,232	14,108,957

18 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, capital commitments were:

	1999	1998
	£	£
Contracted for but not provided for	9,000,000	-

b) Lease commitments

The company has entered into non-cancellable leases in respect of property, plant and equipment, the payments for which extend over a period of up to 7 years.

The minimum annual rentals under the foregoing leases are as follows:

	1999	1998
	£	£
Operating leases which expire		
- within 1 year	72,071	45,843
- within 1-2 years	13,282	-
- within 2-5 years	-	23,999
	85,353	69,842

c) Pension arrangements

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested by independent fund managers.

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of valuations using the attained age method.

The pension charge for the year was £110,712 (1998 - £111,012).

The most recent valuation was at 1 January 1997. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 8% per annum, that salary increases would average 6% per annum and that present and future pensions would increase at the rate of 4% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £1,977,098 and that the actuarial value of those assets represented 111.5% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees were 17.4% and 9.3% respectively during the year.

19 Related party transactions

The company is exempt from the requirement of FRS 8 to include details of transactions with other group companies.

20 Ultimate parent company

The immediate parent company is SLC Operating Limited Partnership.

The smallest and largest group in which the results of SLC Turnberry Limited are consolidated, is that headed by Starwood Hotels and Resorts Worldwide Inc. The consolidated financial statements of this group are available to the public at:

Starwood Hotels and Resorts Worldwide Inc.
Investor Relations
777 Westchester Avenue
White Plains
NY
10604